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In the recent months a view has been aggressively proclaimed by the government and the media that the Indian economy was currently passing through a severe crisis. As a supposed response to overcome this crisis the government has come out with unprecedented haste with a whole package of economic policies of far reaching consequences for the future economy and polity of the country. The very first question, therefore, is to examine what is the nature of this crisis.

The most immediate facets of the economic crisis were mentioned to be the drastic depletion of the foreign exchange reserves of the country, the feared run on the NRI deposits in the country, the threat to the solvency of the country to meet its foreign debt obligations and drying up of sources of foreign capital in view of the plummetting of the credit rating of the country in the international capital market.

Though certain negativities in the economic situation are indeed there and have persisted for quite some time of which the most critical is the foreign exchange crisis, it is a moot point whether the panicky policy response of the government was called for of not. In fact, the state of the economy is basically sound as a look at the real indicators is concerned (Table 1). During the last decade the economy recorded a growth rate of around 5 per

cent, though annual fluctuations were there. During 1990-91 the agricultural growth rate was expected to be a very satisfactory 4.5 per cent, while that of industrial production was expected to be 8.4 per cent and the overall GNP growth at 5.0 per cent. The saving rate was rising and was at a fairly high level of around 21.7 per cent during 1989-90. Country's infrastructure was also in a satisfactory state. The Indian economy has acquired over the years a high degree of diversification, dynamism and resilience to withstand short period shocks. Yet through bad economic management we find ourselves in the present sorry pass. One is left wondering whether this great hue and cry about a serious crisis was generated to push the economy in an altogether different policy direction.

The present malaise can be better described as a self inflicted growing paralysis rather than a sudden stroke. The Indian economy was suffering during the last several years from certain imbalances, particularly in the fiscal and the trade sector, to which economists and even government's own policy makers had been drawing attention. This state of affairs could not be expected to continue for long, though the day of reckoning came sooner than expected thanks to political unstablility and inertia and the strain in balance of payment caused by the Gulf War.

Roots of the 'Present Crisis'

The fiscal and the trade deficit, which are at the Centre of the present economic impasse, are the outward manifestation of the strategy of growth followed during the eighties and the pattern of

financing public expenditure adopted by the government. Most of the discussion of the present 'economic crisis' which has displayed rightly a concern for the twin deficits has, however, by passed the issue of the growth strategy of the eighties and its political economy. As a result what we find is an effort to suppress the symptoms rather than to control the disease.

The growth strategy of the eighties popularly called liberalization of the economy has been more appropriately described as 'demand led industrialization (Kurien, 1989). The strategy relied on giving a boost to the purchasing power of the organized sector of the economy of which the large bureaucracy and army formed an important component by giving them hefty salary increases. The other politically important sections - the exporters, big industrialists, rich farmers - also received bounteous and ever increasing subsidies. The lowering of direct tax rates and various tax concessions also had the same impact. To beguile the poor programmes of the populist nature in the name of poverty alleviation and employment generation were undertaken. But the large sums spent on these programmes only helped lining the pockets of the bureaucrats and the middle men thanks to the large leakages in the system. These policies gave a big boost to demand for the consumer durable goods by the rich and the upper middle classes. Thus between 1981-82 and 1989-90 the index of industrial production for consumer durables went up by as much as 167 per cent against an increase of only 39 per cent in that of consumer non-durables and 94.8 per cent increase in that of industrial production (Table 2).

Liberalization of the industrial and foreign trade regime to meet the demand for consumer durables was a necessary con-commitant of the new growth strategy as the capital and import intensity of durable goods was very high. This is reflected in the growing trade gap during the period inspite of fairly high growth rates of exports in rupee terms (Table 3). Particularly marked was the spurt in the import of capital goods - nearly 5.5 fold over the eighties. This was bound to have a deleterious effect on the domestic capital goods industry. On the other hand the policy of liberal imports of know-how and capital goods and over 5000 foreign collaborations approved between 1985-1990 have hardly made any visible contribution to our `technological capacity, while lot of obsolete foreign plants have been dumped in the country.

The liberal import of foreign capital and technology also did not lead to a sizeable export growth, as the eyes of the foreign investors was on the large domestic market provided by India. In fact the share of engineering products in our total exports has declined in the eighties. The star performers on the export front have been traditional sectors like garments, leather goods, gems and jewellary, tea, etc.

The success of such a strategy of growth was predicated upon a large flow of foreign capital. The large deficit in the current account could be maintained initially due to net earning on invisible accounts. The situation in this respect, however, deteriorated continuously through out the decade (Table 3). The government then resorted to increased commercial borrowing on

which high interest rates had to be paid raising the debt-service burden. India's external debt went on mounting rapidly to reach the figure of Rs.1,20,000 crores including NRI deposits on 31st March 1991. The debt service ratio also rose from 9.4 per cent in 1980-81 to around 21 per cent in 1990-91.

Thus the growth strategy followed during the eighties led to a gradual trapping of the Indian economy into the external debt trap as feared by several economists. Though government's own Economic Advisory Council had been drawing attention to the deteriorating situation of balance of payment no timely action was taken to correct the situation (EAC, 1989).

On the domestic front also the government resorted to soft options leading to growing fiscal imbalances. While government's current expenditure went up by leaps and bounds as a result of its policy of fiscal expansionism to boost the demand in the organised sector as discussed earlier, there was no determined effort to meet the increased expenditure by additional resource mobilization. Instead the government adopted the soft options of increased deficit financing and market borrowing at increasing costs (Table 4). The result was a creeping internal debt trap, with repayment of interest becoming the single largest item of the revenue budget. Throughout the decade revenue side of the budget has remained in deficit and market borrowings are being diverted to meet this deficit instead of going into planned investment.

Accompanying the high level of fiscal deficit has been the declining saving capacity of the government. Saving of the public sector have steadily declined from 4.5 per cent of GDP in 1981-82 to 1.7 per cent of GDP in 1989-90 (Table 5). In fact the

government has remained a net dissaver continuously since 1983-84. These budgetary trends are reflected in the changing pattern of plan finances. Since the seventies the contribution of balance from current revenues has remained negative, while the reliance on market borrowing and budgetory deficits has been increasing (Table 6).

Clearly the expansionary fiscal policy with increasing budgetary deficits and public borrowing could not be sustained in the long run as it was bound to lead the country to an internal debt trap. Economists of the country have been emphasising the need for correction in these fiscal imbalances, which have been there for quite some time. However, there was hardly any critical situation in this regard in the summer of 1991. It was only when a serious crunch in foreign exchange emerged and it had to run to multinational institutions to bale it out that the government perforce took measures to rectify the perilous course it was following, under outside pressure, thus compromising substantially its ability to take independent decisions on matters of economic policy.

The Policy Response

To meet the 'economic crisis' the government announced two large doses of devaluation in quick succession. This was followed by a near total relaxation of the foreign trade regime. Soon after the government came out with its new industrial policy for de-regulation of the economy and the budget aimed at bringing down the fiscal deficit by a hefty margin. The sweep and the rapidity of the policy announcements were truly astonishing, which lend

credence to the belief that these were dictated by the IMF to which the government had to run with a begging bowl. Of far reaching consequences the new policy package involves a sharp break from the past economic regime evolved over the planning period and poses a serious threat to the social and economic objectives being hitherto persued. One has therefore to look not only at the short term impact of these policies on the economic variables but their long period implications for our developmental objectives.

The IMF - World Bank policy package of structural adjustment being imposed on the economy is based on a doctrinaire faith in the unhampered working of the market forces which requires a complete dismantling of the regulatory mechanism and opening up of the economy to foreign monopoly capital. The new direction that is sought to be given to the Indian economy is likely to have serious negative consequences for the objectives of self-reliance, employment generation, poverty removal, balanced regional development, etc.

The new policy package is based upon a number of questionable assumptions. Firstly, it is believed that any attempt to compress our imports will have serious consequences for our domestic growth and a bold export orientation to the economy has to be given to speed up the rate of growth and remove balance of payment disequilibrium. Secondly, it is argued that the competitiveness of Indian exports can be attained by sharp devaluation of the Indian rupee and upgrading the quality of its exports, which would require improving the efficiency of the Indian industry and its

technological upgradation. Thirdly, it is hoped that inflow of foreign capital and technology can play a significant role in meeting the short term foreign exchange requirement of the Indian economys well as in improving its competitiveness and efficiency and in giving the needed boost to exports.

Doubts have been expressed by several Indian economists about the correctness of these assumptions and the expected outcome of the policy measures adopted. The success of devaluation would depend upon the relative elasticity of demand for our imports and exports. The expected reduction in imports is unlikely in the liberal trade regime being introduced, while our exports are not price elastic and are handicapped by quota restrictions of the rich countries. The immediate result of the devaluation of the rupee has been to inflate our import bill and hike the debt service burden of our exports. The sudden and unregulated opening of the Indian economy to foreign capital and technology, being wooed with open arms, is bound to have a deleterious consequence on our domestic industries, so far developed in a sheltered market, particularly in the medium and the small scale sector. Moreover, the import of highly capital intensive foreign technology is likely to further worsen the employment situation. Given the overall shortage of international capital, the competing claims of countries in the eastern block and elsewhere and the prevailing political unstability in the country, the hope of a sizeable inflow of foreign capital is likely to be belied. Thus, the new liberal trade regime is more likely to worsen our balance of payment scenario rather than improve it in the short and the

medium term, while having otherwise deleterious consequences on the domestic economy.

As regards the fiscal policy initiatives there is a consensus even among the critics of the government policy that the unhealthy trends visible in the government budgets in the recent years - rapid growth of non-developmental expenditure, mounting burden of direct and indirect subsidies, heavy reliance on public borrowing, large budgetary deficits, etc. need to be corrected and the fiscal deficits have to be brought down. However, what is controversial is how this fiscal balance is to be restored. In this context the overemphasis on bringing down the fiscal deficit, without paying attention to its structure, is misplaced. In the Indian case a moderate degree of deficit financing is desirable for maintaining the tempo of capital formation through budgetary mechanism. The structuralist assumptions that fiscal deficits have a proportionate relationslhip with inflation rate or current account deficits in balance of payment does not hold good in the Indian context (Rakshit 1991; Bhattacharya 1991). It does not, therefore, follow that by bringing down the fiscal deficit our current account deficit would go down or inflation would be arrested. In fact, the recent devaluation and upward revision of administered prices have pushed up the rate of inflation.

The focus of the fiscal reform policy should be on stepping up the rate of savings in the public sector by curtailing unnecessary non-developmental expenditure for which there is a fairly large scope and mobilizing additional resources by taxing the rural and the urban rich for financing the developmental expenditure. Unfortunately, in the 1991-92 budget the axe has

fallen on the developmental expenditure, which is likely to be stagnant in real terms at best. The slowing down of investment on infrastructure is likely to adversely affect long-term growth prospect (Guhan, 1991). The ability of the government to keep under control its non-developmental expenditure seems to be doubtful, as its back tracking on fertiliser prices portends.

The retreat of the government on the front of the public sector, which has played a leading role in the process of economic development hitherto, is also basically related to the resource crunch the government is facing in the wake of the policy of fiscal indiscipline. Partial or total privatisation of the public sector is an ill-conceived policy in the Indian context, which compromises with the socio-economic objectives of Indian Planning. Similar would be the impact of the measures like abolition of the concept of monopoly houses altogether, removal of controls on location of industries and delicensing of industries over a wide front except for a small list of 18 industries.

It is true that the capacity of the Indian private capitalists to undertake large ventures has considerably increased over the years and the complex regulatory system evolved over the years had become in many respects dysfunctional besides leading to collosal corruption. In the light of these developments rethinking on the relative roles of the public and the private sectors and reform of the regulatory system were indeed called for. But the pendulum seems to have swung to the other extreme with talks of a market friendly approach which may ultimately lead to doing away with the plans altogether. It is extremely doubtful

if the objectives of poverty alleviation, employment generation, reduction in economic disparities and self-reliance can be served effectively by a free enterprise system in our country.

Reorientation of Growth Strategy

As we have argued above the present problems of fiscal deficits and balance of payment are the inevitable consequences of the faculty growth strategy being followed since early eighties, which relied on raising the purchasing power of the people in the organized sector along with a policy of economic liberalization, which led to a process of industrial growth oriented to elite consumption with a high capital and import intensity. Unless there is a basic shift in the growth strategy these problems are likely to persist. The policy package of structural adjustment is based on assumptions which do not hold true in the Indian conditions and is likely to worsen the problems rather than solve them.

Growth with social justice has been the guiding objective of Indian planning. Today we are again witnessing primacy of growth objective irrespective of its composition and its consequences for social justice. Not only this the very notion of planned economic development has come under a serious cloud.

In fact, what we need today is a reorientation of our growth strategy towards a more balanced pattern of agricultural development, a greater concern for employment generation and focus on the production of wage goods as the Economic Advisory Council had forcefully argued in its 1989 report (EAC, 1989). Such a growth strategy requires a larger and not a lesser role of

economic planning and public investment in infrastructure and other priority areas.

The vital question is whether the classes which have benefitted most from the present growth strategy - big industrialists, rich farmers and the upper middle classes - would allow such a needed shift in our growth strategy, which may serve the interests of the masses.

Table 1 : Selected Economic Indicators

(Percentage Change over Previous year)

Economic Indicators	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90 (P)	1990-91 (P)
Gross National Product	5.8	2.6	7.9	3.8	4.1	3.6	4.2	10.6	5.2	5.0*
Agricultural Production	5.6	-3.8	13.7	-1.2	2.5	-3.7	-0.8	21.0	1.7	4.5*
Foodgrains Production	2.9	-2.9	17.7	-4.5	3.4	-4.7	-2.1	21.0	0.4	3.9*
Industrial Production	9.3	3.2	6.7	8.6	8.7	9.1	7.3	8.7	8.6	8.4
Electricity generated	10.2	6.7	7.6	11.9	8.6	10.2	7.6	9.5	10.8	7.1
Wholesale Price Index	2.4	7.2	7.2	6.0	4.8	5.1	10.7	5.7	9.1	12.1
Monetary Resources (M3)	12.5	16.1	18.1	18.9	15.9	18.6	15.9	17.8	19.4	15.1
Imports at current prices	8.4	5.0	10.8	8.2	14.7	2.2	10.7	26.9	25.4	21.9
Export at current prices	16.3	12.8	11.0	20.2	-7.2	14.3	25.9	29.1	36.8	17.5
Foreign Exchange Reserves (Rupees Crores)	4024	4782	5972	7243	7820	8151	7687	7040	6251	11416
Foreign Currency Reserves (Rupees Crores)	3355	4265	5498	6817	7384	7645	7287	6605	5787	4388

* Anticipated (P) Provisional

Source: Government of India, Economic Survey 1990-91, p.1.

Table 2 : Use based Group Indices of Industrial Production
(Base: 1980-81 = 100)

Industry Group	Weight	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89*	1989-90
Basic Goods	39.42	110.9 (10.9)	118.7 (7.0)	125.7 (6.0)	139.7 (11.1)	149.2 (6.8)	163.0 (9.2)	172.2 (5.6)	189.2 (9.9)	199.4 (5.4)
Capital Goods	16.43	106.7 (6.7)	110.6 (3.7)	123.5 (11.7)	127.2 (3.0)	140.7 (10.6)	166.3 (18.2)	192.8 (15.9)	206.2 (7.0)	252.3 (22.4)
Intermediate Goods	20.51	103.7 (3.7)	104.6 (1.0)	114.9 (9.8)	126.1 (9.7)	135.5 (7.5)	141.5 (4.4)	148.3 (4.8)	165.4 (11.5)	172.5 (4.3)
Consumer Goods	23.65	113.8 (13.8)	112.0 (-1.6)	113.8 (1.6)	122.0 (7.2)	137.3 (12.5)	147.1 (7.1)	156.6 (6.5)	163.2 (4.2)	173.5 (6.3)
(a) Consumer Durables	2.55	110.9 (10.9)	121.0 (9.1)	140.5 (16.1)	170.8 (12.6)	202.8 (18.7)	241.2 (18.9)	260.1 (7.8)	291.2 (12.0)	296.1 (1.7)
(b) Consumer Non-durables	21.10	114.1 (14.1)	110.9 (-2.8)	110.5 (-0.4)	116.1 (5.1)	129.4 (11.5)	135.7 (4.9)	144.1 (6.2)	147.7 (2.5)	158.7 (7.5)

* Provisional

Note: **Figures within brackets indicate percentage change over the preceding year.**

Source: Government of India, Economic Survey 1990-91, p.41.

Table 3: Key Indicators of India's Balance of Payment
(As per cent of GDP)

Year	Exports	Imports	Net Invi-sibles	Trade Balance	Current Account Balance
1980-81	4.8	9.2	3.2	-4.4	-1.2
1981-82	4.9	8.7	2.4	-3.8	-1.5
1982-83	5.1	8.4	2.0	-3.2	-1.3
1983-84	4.9	7.7	1.7	-2.8	-1.1
1984-85	5.2	8.1	1.7	-2.9	-1.2
Average 1980-85	5.0	8.4	2.2	-3.4	-1.3
1985-86	4.4	8.1	1.4	-3.7	-2.3
1986-87	4.5	7.7	1.2	-3.2	-2.0
1987-88	4.9	7.7	0.9	-2.8	-1.9
1988-89	5.3	8.9	0.8	-3.5	-2.7
1989-90	6.4	9.3	0.6	-2.9	-2.3
Average 1985-90	5.1	8.3	1.0	-3.2	-2.2

Source: Government of India, Economic Survey 1990-91, p.152.

Table 4: Various Measures of Deficit in Central Budget
(as per cent of GDP)

Year	Revenue Deficit	Budget Deficit	Monetised Deficit	Gross Fiscal Deficit
1975-76	-	0.5	0.3	4.1
1980-81	0.6	1.8	2.6	6.2
1981-82	0.1	0.9	2.0	5.4
1982-83	0.7	0.9	1.9	6.0
1983-84	1.2	0.7	1.9	6.3
1984-85	1.8	1.6	2.6	7.5
1985-86	2.2	2.0	2.4	8.3
1986-87	2.8	2.8	2.4	9.0
1987-88	2.7	1.7	2.0	8.1
1988-89	2.7	1.4	1.6	7.8
1989-90	2.7	2.4	3.1	8.0
1990-91 (RE)	3.4	4.1	3.0	8.4

Source: Economic Survey, 1990-91 and 1989-90.

Table 5 : Saving Investment Gap and Current Account Deficit
(As per cent of GDP)

Year	Public Sector			Private Sector			Current Account Deficit
	Saving	Investment*	Gap	Saving	Investment*	Gap	
1980-91	3.4	8.7	-5.3	17.8	12.3	5.5	-1.2
1981-82	4.5	10.5	-6.0	16.5	14.5	2.0	-1.5
1982-83	4.4	11.3	-6.9	14.7	11.6	3.1	-1.3
1983-84	3.3	9.8	-6.5	15.5	10.9	4.6	-1.1
1984-85	2.8	10.8	-8.0	15.4	10.3	5.1	-1.2
1985-86	3.2	11.1	-7.9	16.5	12.9	3.6	-2.3
1986-87	2.7	11.7	-9.0	15.6	11.4	4.2	-2.0
1987-88	2.2	10.4	-8.2	18.2	12.2	6.0	-1.9
1988-89	2.0	9.9	-7.9	19.2	14.0	5.2	-2.7
1989-90	1.7	10.7	-9.0	19.9	12.9	7.0	-2.3

Source : Government of India, Economic Survey 1990-91

Table 6: Pattern of Plan Financing
(As per cent of GDP)

Item	1971-76	1976-80	1980-85	1985-90
1. Balance from Current Revenues	-0.3	-1.2	-1.8	-4.9
2. Market Borrowings (Net)	0.8	1.5	2.1	1.8
3. Other Capital Receipts including Capital inflows	1.9	2.8	3.0	5.5
4. Budgetary Deficits	1.0	1.1	2.1	3.3
Total	4.2	5.3	6.7	7.8

Source : Taken from S. Guhan (1991), p.2002.

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